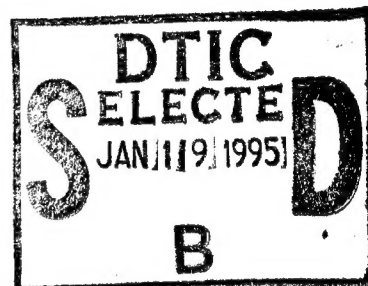


NAVAL POSTGRADUATE SCHOOL MONTEREY, CALIFORNIA



THESIS

**BIENNIAL BUDGETING IN THE
DEPARTMENT OF DEFENSE:
A MIDTERM ASSESSMENT WITH A
COMPARISON TO BIENNIAL BUDGETING
AT THE STATE LEVEL**

by

Victor S. DiRamio

December, 1994

Principal Advisor:

Jerry L. McCaffery

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BUDGETING AT THE STATE LEVEL**

by

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Submitted in partial fulfillment
of the requirements for the degree of

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from the

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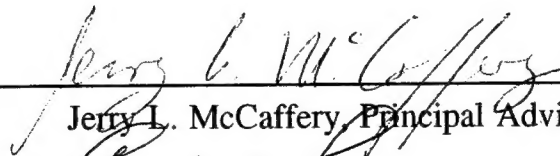
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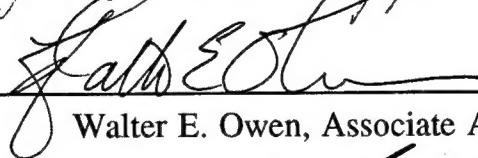


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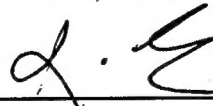
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ABSTRACT

A major budget reform proposal that is being studied, and has been implemented within the Department of Defense (DoD) is biennial budgeting. The Fiscal Year (FY) 1986 Defense Authorization Act directed DoD to submit two-year defense budgets beginning in FY 1988. Although relatively a new development for the federal government, many states have used biennial budgeting for years. Although budget size, scope, procedure, and form vary among states and between states and the federal government, certain successful attributes of biennial budgeting at the state level may be applied to biennial budgeting at the federal level. The purpose of this thesis is to provide an overview and analysis of biennial budgeting within DoD and the federal government. This study examines the effects of biennial budgeting on the Department of the Navy's budget planning and implementation process and Program Objectives Memorandum development. The realized benefits and limitations of biennial budgeting since DoD became the first federal agency to prepare two-year budgets are also explored. Biennial budgeting at the federal and state levels are compared, including a discussion of relevant attributes of state biennial budgeting experiences that may be applied to the federal budget process.

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I. INTRODUCTION

A. BACKGROUND

As the size and complexity of the annual federal budget have increased over the past 50 years, lawmakers have been spending an increasing amount of time and resources on the annual budget process. The Congressional Budget and Impoundment Act of 1974 provided a more structured role for Congress in preparing and analyzing the budget, by instituting a budget timetable, establishing two Congressional budget committees, and shifting the fiscal year in an effort to formalize and strengthen the budget process (Anderson, 1987, pp. 11). Despite this Act and the additional time and effort devoted to budget issues, Congress has often been unable to pass authorization bills on schedule, resorting to continuing resolutions at the beginning of fiscal years. In addition, the vast amount of attention given to the budget process by legislators has detracted from the time lawmakers need to spend on non-budget issues and activities.

A major budget reform proposal that is being studied by politicians, and has been implemented within the Department of Defense (DoD) is biennial budgeting. The Fiscal Year (FY) 1986 Defense Authorization Act directed DoD to submit a two year defense budget starting with FY 1988 and FY 1989. These biennial budget submissions by DoD have met with limited success. Under the current process of biennial budgeting within DoD, authorizations and appropriations are still executed annually even though the Defense Department must submit two annual budgets (two individual budgets, one for each fiscal year in the biennium) to Congress once every two years. In the off year the Pentagon presents an amended defense budget via the administration to Congress in early February, four months into the start of the biennial period.

The movement towards a biennial budgeting cycle has recently been gaining support by various organizations in Washington. The Vice President's National Performance Review (NPR) is recommending that the entire budget cycle be changed from an annual to a biennial process. Under this system the President would present budgets every two years, authorization committees would approve full multi-year budgets, budget resolutions would be adopted every two years and appropriations would be established for the entire biennial period. (Gore, 1993, pp. 17)

In recent testimony before Congress the General Accounting Office (GAO) offered support for portions of the NPR's biennial budgeting proposal, specifically associated with multi-year authorizations and budget resolutions. In contrast to the NPR's promotion of biennial appropriations, GAO supports a continued annual appropriations cycle. (Irving, 1994, pp. 6-7)

The NPR and GAO proposals, in addition to the recent views and recommendations on the implementation and structure of a biennial budgeting process made by the Joint (House and Senate) Committee on the Organization of Congress (JCOC), and the Congressional Budget Office (CBO), will be discussed in depth in Chapter II of this thesis.

Although a relatively new development for the federal government, many states have used biennial budgeting for years. In 1940, 44 states operated under a two-year budget cycle. Currently 20 states utilize a biennial budget, however, the characteristics and methods of implementing those budgets vary greatly among states. Of the 20 states that utilize a biennial budgeting cycle, seven have biennial legislative cycles and therefore could not operate under an annual budgeting schedule (Irving, 1994, pp. 2).

Although budget size, scope, procedure, and form vary among states and between states and the federal government,

certain successful attributes of biennial budgeting at the state level may be applied to biennial budgeting at the federal level. These issues will be addressed in Chapter IV.

The current administration and Congressional supporters feel that a biennial budget would provide lawmakers additional needed time to carefully formulate and enact the budget, enhance program funding stability within DoD, and provide legislators an increased amount of time to deal with non-budget issues. Opponents argue that biennial budgeting reduces the flexibility and responsiveness needed to react to changes in economic and national interest issues and under a policy of biennial appropriations, would reduce Congressional control over the budget. An analysis of biennial budgeting including a detailed study of these and other realized benefits and limitations of a two-year budget cycle will be addressed in Chapter III.

B. OBJECTIVE

The purpose of this thesis is to provide an overview and analysis of biennial budgeting within DoD and the federal government. This study will explore the realized benefits and limitations of biennial budgeting since DoD became the first federal agency to prepare two-year budgets. This thesis will also examine the effects of biennial budgeting on the Defense Department's Program Objectives Memorandum (POM) development and budget preparation process. A comparison of biennial budgeting at the federal level with biennial budgeting at the state level will also be made, including a discussion of relevant attributes of state biennial budgeting experiences that may be applied to the federal budget process.

C. RESEARCH QUESTIONS

The primary research question for this thesis is:

- What effect has biennial budgeting had on the Department of the Navy's budget planning and implementation process?

The following subsidiary research questions were developed to help clarify and supplement the principal research question:

- What have been the realized advantages and limitations of biennial budgeting within DoD and the Department of the Navy (DoN)?
- What changes to POM development within DoN has biennial budgeting caused?
- What are the relevant attributes of state biennial budgeting experiences that may be applied to the federal biennial budget process?
- Given the current political and budgetary climate, what is the likely future progression of biennial budgeting in DoD and in the federal government?

D. SCOPE AND LIMITATIONS

The focus of this thesis will be to assess the effect of biennial budgeting on DoN's budget planning and implementation process since the first two-year budget submission and to forecast the likely effects and outcomes of biennial budgeting at the federal level.

Additionally, this study will develop comparisons between federal and state biennial budgeting attributes, and explore relevant characteristics of state biennial budgeting experiences that may be applied to the federal biennial budget process.

Relatively little has been written on biennial budgeting in DoD and the federal government since DoD's first two-year budget submission for FY 1988 and FY 1989. As a result, I have relied on interviews with federal budget professionals in forming much of my analysis of the effects of biennial budgeting on DoN's budget planning and implementation process and in forecasting the likely effects and outcomes presented in Chapter III.

The reason little has been written recently on biennial budgeting is not surprising. The implementation of a biennial budgeting cycle in DoD initially drew a great deal of interest and attention from budget observers and experts. Even though the conference on the authorization bill authorized 60% of the \$200 billion FY 1989 budget request, no money was appropriated at that time for 1989 (Hamre, 1990, pp. 71). In future biennial budget submissions authorization committees would no longer authorize any portion of the off year when it became clear that congress would not appropriate for the second year in a two-year DoD budget. As a result, interest in biennial budgeting died out, and students of the defense and federal budget process focused their studies and written works on more pressing and viable issues.

E. RESEARCH METHODOLOGY

Bibliographical searches for articles, papers, Congressional hearings and other works relating to biennial budgeting, two year budgets and budget reform were conducted at the Naval Postgraduate School Library using BOSUN, The Defense Logistics Studies Information Center (DLSIC), the Defense Technical Information Center (DTIC), and the Computer Search Services. GOPHER (the Internet) was also used. This study began with an in depth analysis of the literature that

resulted from the above searches to gain an understanding of biennial budgeting issues.

I have also conducted comprehensive phone interviews with branch heads from the Navy Comptroller's office (NAVCOMPT), budget officers and deputy comptrollers of major claimants, Office of Secretary of Defense (OSD) and Office of Management and Budget (OMB) budget analysts, and House and Senate Authorization Committee and Appropriations Defense Subcommittee staff members.

Following the phone interviews the information obtained was studied and interpreted, and follow up phone calls were made to clarify certain points. The input of thesis advisors was employed throughout this work to develop fundamental research questions and issues and to help guide the study.

F. ORGANIZATION OF THE STUDY

Chapter I. Introduction: This chapter begins with a broad background and overview of biennial budgeting. It also identifies the purpose of the study, states the research questions and presents a general outline of the thesis. The methodology used in developing this thesis is also presented.

Chapter II. Background: This chapter will provide historical background on biennial budgeting in the DoD. Included in this chapter are the events that led to the Defense Department's first two-year budget, the biennial budget submission process, and congressional response since the first submission. Recent proposals and the foundation of the current resurgence in support for a two-year budget cycle will also be investigated.

Chapter III. Analysis of the Effects of Biennial Budgeting: The effects of a two-year budget cycle on DoN's budget formulation and implementation process and how it has

impacted the POM process will be explored. Realized advantages and disadvantages of biennial budgeting in DoN and the likely future progression of biennial budgeting in DoD and in the federal government are also examined.

Chapter IV. Biennial Budgeting at the State Level: Similarities and Differences between biennial budgeting at the federal and state levels are explored, as well as relevant attributes of state biennial budgeting experiences that may be applied to the federal biennial budget process. Trends in biennial budgeting at the state level, factors affecting whether states use biennial budgeting, and lessons learned from state biennial budgeting will also be presented.

Chapter V. Conclusions: A summary and conclusions drawn from the study are presented along with possible further research recommendations.

This study will provide an analysis of the effects of biennial budgeting on DoD budget planning and implementation and whether biennial budgeting has been effective for DoD. Comparisons to biennial budgeting at the state level will be made. This study may provide additional insight into, and identify long term feasibility and characteristics of biennial budgeting.

II. BACKGROUND

A. INTRODUCTION

This chapter will provide historical background on biennial budgeting in the federal government and in the Department of Defense (DoD). Included in this chapter are prominent past and present biennial budgeting proposals, in addition to the recent views and recommendations on the implementation and structure of a two-year budgeting process made by the General Accounting Office and the Congressional Budget Office. The events that led to the Defense Department's first two-year budget, the biennial budgeting process, and congressional response since the first submission, will also be discussed in this chapter.

B. THE MOVEMENT TOWARD A BIENNIAL BUDGET

In response to the growing size and increasing complexity of the annual federal budget since 1950, Congress has revised its approach to the oversight and analysis of the budget process over the last several years.

The Congressional Budget and Impoundment Act of 1974 provided a more structured role for Congress in preparing and analyzing the budget. The act instituted a budget timetable, established two Congressional budget committees, and shifted the start of the fiscal year from 1 July to 1 October (Anderson, 1987, pp. 11), in an effort to formalize and enhance the budget process. In the years following this act, frustration over the federal budget process continued. "The perceptions are that the current annual budget process is too time consuming and cumbersome, has an unrealistic timetable, lacks the means to ensure compliance, and crowds out time for

oversight and other legislative activities" (Comptroller of the United States, 1984, pp. 4).

Despite the passage of the Congressional Budget and Impoundment Act and the additional time and effort devoted to budget issues, Table 1 shows that Congress has been able to pass defense appropriation bills on schedule only three times since 1977. Congress has routinely resorted to passing continuing resolutions, which are intended to provide a way for DoD (or any agency) to continue operating while Congress analyzes and enacts the current Fiscal Year (FY) appropriations bill.

<u>Fiscal Year</u>	<u>Effective Date</u>	<u>Public Law</u>
1977	22 September 1976	P.L. 94-419
1978	21 September 1977	P.L. 95-111
1979	13 October 1978	P.L. 95-457
1980	21 December 1979	P.L. 96-154
1981	15 December 1980	P.L. 96-527
1982	29 December 1981	P.L. 97-114
1983	21 December 1982	P.L. 97-377
1984	8 December 1983	P.L. 98-212
1985	12 October 1984	P.L. 98-473
1986	9 December 1985	P.L. 99-190
1987	18 October 1986	P.L. 99-500
1988	22 December 1987	P.L. 100-202
1989	1 October 1988	P.L. 100-463
1990	21 November 1989	P.L. 101-165
1991	5 November 1990	P.L. 101-511
1992	26 November 1991	P.L. 102-172
1993	6 October 1992	P.L. 102-396
1994	11 November 1993	P.L. 103-139

Table 1. Dates of Enactment; Department of Defense Appropriations Acts FY 1977 through FY 1994.
 FY 1977-1986 from: Anderson, 1987, pp. 21.
 FY 1987-1993 from: U.S. Statutes at Large 1986-1993.
 FY 1994 from: Congressional Quarterly, 1993, pp. 3135.

A major contributing factor to Congress' inability to pass defense appropriations bills on time, is the immense size and complexity of the DoD budget.

The intricacy of the defense budget is evident by the vast number of programs and line items in the DoD budget that are reviewed and analyzed by the Authorization committees, Appropriation subcommittees, and their staffs. For example, the FY 1995 Defense Authorization bill contains approximately 700 Research, Development Test and Evaluation (RDT&E) line items, over 1200 defense procurement line items and hundreds of additional line items in the remaining components of the defense budget (U.S. House of Representatives, Committee on Armed Services: National Defense Authorization Act for FY 1995; House Report 103-499; May 10, 1994).

The Magnitude of the defense budget also contributes to the problem of timely appropriation bill passage. For FY 1993, the total defense budget authority made up in excess of 19% (\$281.1 billion) of the total federal government budget authority of \$1473.6 billion (National Defense Budget Estimates for FY 1995, March 1994, pp. 6-10).

Critics of the budget process charge that Congress, particularly the authorization committees, spend too much time budgeting and not enough time developing national defense policy and setting program funding levels for appropriation committees. In a speech on the floor of the Senate, Senator Sam Nunn (D) of Georgia asserted that members of Congress are "acting more and more like national program managers in their oversight of defense...focusing on grains of sand on the beach while we should be looking over the broad ocean and beyond" (Nunn, 1985, pp. 197-198).

In a 1984 interview, prior to becoming the chairman of the Senate Armed Services Committee, Senator Nunn stated:

The budget cycle drives the Congress, and the Congress drives the executive branch to such an

obsession that we don't have time to think about strategy. We never had a strategy hearing since I've been in the Senate (Nunn, 1984, pp. 614).

Nunn went on to say that moving toward a two-year defense budget is vital to reinforcing the Authorization committee's oversight role and that he would push the defense department to submit biennial budgets (Gordon, 1984, pp. 614).

Little has changed in the decade since Senator Nunn made the above comments. At a hearing before the Legislation and National Security Subcommittee of the Committee on Government Operations; House of Representatives on October 7 1993, Congressman William Clinger (R) of Pennsylvania, while expressing his concerns over the way Congress manages the budget process, stated: "Congress spends far too much time debating spending proposals and far too little time looking at how well that money is spent" (Clinger, 1993, pp. 2).

Disappointment in the complexity of and excessive time spent on the annual budget process has continued to grow over time.

Throughout the...years, one conviction has united Congress and the administration, Republicans and Democrats, liberals and conservatives: a growing disaffection with the way the federal government reviews and adopts annual budgets. The process is cumbersome, duplicative, and unending. Controversy in one fiscal year spills into the next (Hamre, 1990, pp. 71).

The frustration and disaffection over the annual budget process was the impetus for many in Congress and in administrations, past and present, to support a move toward a biennial budgeting process.

C. EARLY PROPOSALS FOR A FEDERAL BIENNIAL BUDGET

Since 1977 Congressional advocates of budget reform have submitted dozens of bills that would establish a biennial budgeting cycle in one form or another for the federal government. These bills varied mainly in the timing of budget events within the biennial cycle, and in whether appropriations would be passed for a two-year period or remain an annual occurrence (Hamre, 1990, pp. 72). Prominent proposals from the start of the biennial budgeting movement will now be presented.

1. The Panetta Proposal

Former Congressman Leon Panetta (D) of California sponsored a biennial budgeting bill in the mid-1980's that featured authorization and appropriation bills that cover a two-year budget period. Under this proposal lawmakers would conduct oversight of the budget in the first session of a new Congress, and perform budget formulation functions in the second session.

One drawback of the Panetta biennial budgeting proposal is that a new President and new Congress would receive close to two years of the preceding Congress' and administration's budget to operate under. If election results reflected a desired change by voters in the policy course for the nation, lawmakers would doubtlessly pass supplemental authorization and appropriation acts patterned after voters desires, eliminating the fundamental benefit of a biennial budget: maintaining program stability.

Another disadvantage is that this proposal would position budget votes in election years, a time when lawmakers running for another term in office would be less likely to make tough budget cutback decisions (Anderson, 1987, pp. 31-32).

2. The Roth Bill

Senator William Roth (R) of Delaware introduced a biennial budgeting bill in the 98th Congress similar to the Panetta proposal in that it provided an appropriation period covering a single two-year period. In this bill, however, budget oversight would occur in the second year following budget formulation and actions accomplished in the first session of a new Congress (Anderson, 1987, pp. 32-33).

In 1984 the Government Accounting Office (GAO) endorsed the properties of a biennial budgeting process that were present in Senator Roth's bill for the following reasons (quote):

- Places difficult budget votes in non-election years.
- Allows adoption of the budget in the first year of new members of Congress.
- Allows the budget to be adopted during the first year of a President's term every other biennium, providing the opportunity to swiftly implement a new President's program.
- Leaves the second session of a Congress relatively free for oversight. (Comptroller of the United States, 1984, pp. 6)

As mentioned earlier, proponents of budget reform have introduced several variations of biennial budgeting bills since the late 1970's. These bills varied mainly in the timing of budget milestones within the biennial cycle, and in appropriation bill frequency and duration. Almost all were derivations of the two predominant bills mentioned above. The next section will explore current proposals and views in the push for a federal biennial budget.

D. RECENT FEDERAL BIENNIAL BUDGETING PROPOSALS AND VIEWS

1. The Vice President's National Performance Review Biennial Budgeting Proposal

In *From Red Tape to Results: Creating a Government that Works Better and Costs Less; Report of the National Performance Review*, Vice President AL Gore states:

Annual budgets consume an enormous amount of management time-time not spent serving customers. With biennial budgets, rather than losing months to a frantic "last-year's budget-plus-X-percent" exercise, we might spend more time examining which programs actually work....In Congress 7 out of 10 members favor a biennial process with a two-year budget resolution and multi-year authorizations. The time is ripe. (Gore, 1993, pp. 17)

The National Performance Review (NPR) biennial budgeting proposal recommends that the entire budget cycle be changed from an annual to a biennial process. Under this system the President would present budgets every two years, authorization committees would approve multi-year budgets, budget resolutions would be adopted every two years and appropriations would be established for the entire biennial period (Gore, 1993, pp. 17).

Given that former Congressman Panetta was the Director of the Office of Management and Budget (OMB) at the time that Vice President Gore presented the administration's biennial budgeting proposal, similarities between Panetta's bill and the administration's proposal are not surprising. Under the proposal presented by Vice President Gore, lawmakers would conduct oversight of the budget in the first session of a new Congress, and perform budget formulation functions including budget submission, budget resolution, and appropriations in the second session (Blum, 1994, pp. 1).

In October 1993 the then Director of OMB, Leon Panetta, testified before the House Committee on Government Operations-Subcommittee on Legislation and National Security, on the Clinton administration's biennial budgeting proposal. He detailed the five most significant ways that biennial budgeting would improve the way government works (paraphrased):

- Stability and Rationality: Small and predictable annual changes in accounts could be decided two years at a time saving tremendous time and effort. With the work intensive portion of the budget completed in the first year, lawmakers could concentrate on the many other (non-budget) issues that need to be confronted. Modifications to the off-year's figures could be accomplished in a supplemental bill.
- Better Management: Biennial budgeting would reduce the amount of resources allocated to budgeting and allow managers more time to consider their programs and policies.
- Oversight: A two-year budget cycle would allow lawmakers and agencies to conduct honest examination and analysis of funded programs.
- Predictability: More predictable funding levels, benefiting administrators and recipients of government programs.
- Less Waste: Under a biennial budgeting cycle there would be less opportunity to pass pork-barrel spending programs. (Mr. Panetta conceded that the amount currently spent on pork would not necessarily be curbed; just the number of chances for it to happen.) (Panetta, 1993, pp. 12-18).

Since the first federal biennial budgeting bill in 1977, the anticipated advantages (such as those mentioned by Mr. Panetta above, and those envisioned by the Congress and Pentagon in Section E. below) and limitations (which will be presented in Congressional Budget Office testimony latter in this section) of a two-year budget cycle have been describe in

numerous articles and proposals. In Chapter III of this thesis I will focus on the realized benefits and weaknesses of biennial budgeting in DoD from the perspective of managers affiliated with the defense budget process, where two-year budget submissions have been prepared since the 1988/1989 biennium.

2. The Joint Committee on the Organization of Congress' Biennial Budgeting Proposal

The Joint Committee on the Organization of Congress (JCOC) developed a biennial budgeting proposal in 1993, introduced by Chairman David Boren (D) of Oklahoma and Vice Chairman Pete Domenici (R) of New Mexico, and included in S. 1824. The biennial budgeting recommendation cultivated by the JCOC is very similar to the administration's proposal with the exception of a different milestone timetable. Under the JCOC plan, budget formulation and actions would be performed in the first session of a new Congress, followed by budget oversight in the second year (Blum, 1994, pp. 1).

The NPR and JCOC proposals are not surprisingly, opposed by many members of the powerful Appropriations Committees including Senate Chairman Robert Byrd (D) of West Virginia. Even some members of the JCOC contest the multi-year appropriations provision in S. 1824 (Congressional Quarterly, 1994, pp. 316-317).

3. The General Accounting Office's Reaction to the Clinton Administration's and the JCOC's Biennial Budgeting Proposals

In recent testimony before Congress, the General Accounting Office (GAO) offered support for portions of the administration's and the JCOC's biennial budgeting proposals, specifically associated with multi-year authorizations and budget resolutions. In contrast to the NPR's and JCOC's

promotion of multi-year appropriations, GAO supports a continued annual appropriations cycle (Irving, 1994, pp. 1-2).

In her opening remarks before the Senate Committee on Rules and Administration, GAO's Associate Director of Budget Issues cautioned:

Although there is virtually universal agreement that the current (budget) process has problems, changes must be carefully considered. In fact, the current process is, in part, the cumulative result of many changes made to address previous problems. The challenge is to design solutions to existing problems without creating new ones (Irving, 1994, pp. 1).

The GAO concludes that biennial budget policy agreements and authorizations make sense, but that although there could be time savings for executive branch agencies if multi-year appropriations were enacted, a shift in Congressional authority and oversight could result. "Proposals to change the process should be viewed partly in the context of their effect on the relative balance of power in this debate." (Irving, 1994, pp. 3).

4. The Congressional Budget Office's Reaction to the Clinton Administration's and the JCOC's Biennial Budgeting Proposals

In evaluating the potential effects of each of the above biennial budgeting proposals, the Deputy Director of the Congressional Budget Office (CBO) discussed the following key topics in great detail before the Senate Committee on Rules and Administration.

a. Biennial Budget Resolutions

Biennial budget resolutions would increase the probability that budget estimates would be based on economic and policy decisions that could be erroneous. Biennial budget resolutions would require calculating changes in the economy and baseline budget 33 months before the end of that fiscal

year, as opposed to 21 months under annual resolutions (which is difficult enough). Enforcing the budget resolution could also pose a potential problem as the assumptions used to develop the resolution become dated (Blum, 1994, pp. 1-2).

b. Biennial Appropriations

Executive agencies and recipients of federal funds would benefit from the increased flexibility and ability to plan further into the future (program stability) that multi-year appropriations would afford. In addition, managers would be able to spend more time evaluating the effectiveness of their programs especially in the off-year. Contracts negotiated between the government and industry could be negotiated at a better price if a multi-year commitment could be made, guaranteeing stable program funding.

On the other side of the coin, biennial appropriations would be viewed by lawmakers as a reduction in their oversight and control of programs. "Some members of Congress might view that as a shift in power from the legislative to the executive branch" (Blum, 1994, pp. 3).

In addition, it is very likely that a biennial appropriations cycle would be accompanied by more and larger supplemental appropriations by Congress in the off-year, especially in response to emergencies, significant changes in the economy, and hard to predict foreign aid programs. A biennial cycle that consists of a single two-year appropriation followed by routine omnibus supplemental appropriations would not be an improvement over the current process at all (Blum, 1994, pp. 2-4).

c. Effect of Biennial Budgeting on Congressional Work Load

Supporters of a two-year budget say that Congress, in addition to agency managers, would realize time savings from a biennial budgeting cycle, allowing lawmakers to

allocate more attention to budget oversight and other legislative matters.

If, however, the biennial budget timetable is not followed or if numerous supplemental appropriations occur in the off-year (which is very likely), this could result in the loss of any expected time savings from a biennial cycle (Blum, 1994, pp. 4).

d. Conclusions

In his concluding remarks before the Committee, Mr. Blum stated:

Biennial budgeting may...hamper efforts to reduce the deficit. Once the deficit problem is in the past, biennial budgeting may be beneficial, but only if all participants adhere to the system. If they do, some of the improvements--primarily, increased certainty and improved management opportunities for agencies and state and local governments--may be worth the costs of having less frequent Congressional attention to budget policy. But if the Congress does not believe that the biennial budgeting system will hold--that is, if the system will revert to its counterpart annual system because of the necessity or desire to make budget policy annually--then disrupting the current system by making such a change would probably yield few benefits (Blum, 1994, pp. 5).

Incidentally, I found it interesting that the GAO and the CBO did not discuss, in their testimony before Congress, the differing budget milestone timetables promoted in the NPR's and the JCOC's biennial budgeting proposals.

E. EVENTS LEADING TO BIENNIAL BUDGETING IN DOD

1. Congressional Interest in a Biennial Budget for DoD

This section picks up from the general frustration felt by many in Congress in the mid-1980's over the budget process, discussed in Section B of this chapter. This frustration, and

the specific convictions of the then chairmen of both the House and Senate Armed Services Committees (Congressman Les Aspin and Senator Sam Nunn respectively), were the catalysts for lawmakers to search for a better way of managing the defense establishment. Specifically the authorization committees needed to get away from the particulars of budgeting, and focus more on defense strategy and policy.

Congressman Aspin instituted a Defense Policy Panel of the House Committee...to provide an institutional mechanism through which the committee could take a broad purview of the nations defense posture and also examine selected policy issues in detail...Senator Nunn, when he became chair of the Senate Armed Services Committee in 1986, took a number of steps to enable the committee to assume a more forceful and deliberative policy role...both Aspin and Nunn reasoned that a two-year defense budget could help the authorizing committees get out of the details of budgeting and into the larger contours of policy (Art, 1990, pp. 34).

The mid-1980's was also a period of conflict between the President and the Congressional Democratic majority over the size of the defense budget.

Congress demanded--and imposed--large reductions in what were perceived to be unrealistic budget requests, while the administration compromised on reductions one year, only to submit requests the following year that assumed a return to rapid spending increases. In this climate, several members of Congress sought to bring stability to the defense budget and to jump-start a general reform of the budgeting process by shifting the defense department to biennial budgeting (Hamre, 1990, pp. 72).

2. DoD Interest in a Biennial Budget

The Pentagon, under Secretary of Defense Casper Weinberger, supported the move to a biennial budget, but for different reasons than Congressional supporters. "His (Weinberger's) top staff--Deputy Secretary William Taft,

Comptroller Robert Helm, and Director of Program, Analysis, and Evaluation David Chu--came to favor a biennial budget for what they saw as its inherent managerial advantages: greater program stability and better oversight of program execution" (Art, 1990, pp. 34).

These were the primary reasons for, and expected benefits of, shifting to a biennial budget cycle from Congress' and the Defense Department's perspectives. The additional anticipated advantages and drawbacks of a two-year budget that have been mentioned earlier in this chapter, were also relevant considerations in the move toward biennial budgeting in DoD.

3. From Interest to Adoption

In 1985, mounting interest in the potential benefits of biennial budgeting and growing dissatisfaction with the annual defense budget process, for reasons previously mentioned, led to the adoption of the Nunn-McCurdy amendment to the FY 1986 defense authorization bill. This amendment required the president to begin submitting two-year defense budgets for FY 1988 and FY 1989. Following the President's endorsement the military departments submitted their first biennial budgets to the Office of the Secretary of Defense (OSD).

Biennial budgeting first had to be judged in the best interests of their respective institutions before Aspin, Nunn or Weinberger would favor it. Once they concluded it was, they pushed for it in the name of national interest. From different political motives, then, the Congressional Armed Services Committees and the Pentagon came to favor a two-year budget. What the former mandated in 1986, the latter was more than happy to provide (Art, 1990, pp. 35-36).

F. THE BIENNIAL BUDGETING PROCESS AND CONGRESSIONAL RESPONSE

1. Planning and Programming

The shift to a biennial budgeting cycle within DoD resulted in changes to the infrastructure that supports the building of the defense budget, known as the Planning Programming and Budgeting System (PPBS). PPBS began in the early 1960's under Secretary of Defense Robert McNamara "in order to achieve centralized civilian control over the Department of Defense's operations and to allocate resources by cost-effectiveness criteria" (Art, 1990, pp. 28). Essentially, PPBS starts with a broad defense strategy designed to meet an anticipated threat-(Planning). This strategy is then used to estimate the requirements and develop programs to meet the threat-(Programming). Finally costs are budgeted in support of the approved programs-(Budgeting) (Anderson, 1987, pp. 71).

Two major elements that support PPBS which have been altered by the switch to biennial budgeting are the Program Objectives Memorandum (POM), and the Future Years Defense Plan (FYDP). POMs are prepared by each service, in the Programming phase, in response to the Defense Guidance provided by the administration and the Secretary of Defense. The POM details program requirements in terms of manpower, force structure, and costs for the period covered by the FYDP. The POM development process has changed from an annual cycle, to a two-year cycle, as a result of biennial budgeting (Anderson, 1987, pp. 70-86).

When DoD switched to a two-year budget cycle, the Five Year Defense Plan, as it was known prior to the implementation of biennial budgeting, was extended by a year and changed to the Six Year Defense Plan. Out of convention it was eventually changed back to the FYDP (Future Years Defense Plan). The FYDP projects defense spending six years into the future. It is the

PPBS controlling document, approved by the Secretary of Defense (Art, 1990, pp. 27-38).

This section has only scratched the surface of how PPBS works and how it has been procedurally affected by biennial budgeting. It is intended to familiarize the reader with the POM and FYDP, which are used in the analysis of biennial budgeting addressed in Chapter III. For a detailed description and extensive analysis of this topic see the two above references.

2. The Biennial Budget: Method and Reaction

This section summarizes the DoD approach and Congressional response to biennial budgeting, essentially recounting the events of the first two-year budget which has set the tone for subsequent biennial budget submissions by DoD.

In January 1986 DoD began working on its first biennial budget for FY 1988 and FY 1989. The two-year budget was essentially two one-year budgets created from the first two years of the then Five Year Defense Program. The House and Senate Armed Services Committees authorized 6% and 70% respectively, of the presidents FY 1989 request, ultimately agreeing to authorize 60% of the FY 1989 request out of conference. The appropriations committees, who historically showed little interest in biennial appropriations, ignored entirely the topic of appropriations for FY 1989.

Many issues contributed to the partial authorization and failure to appropriate for FY 1989. A partisan battle erupted between the Congress and the administration over defense and national policy spending issues, and economic assumptions that affected expected federal revenues. "By requesting a two-year budget for defense spending while failing to hit the Gramm-Rudman target in the second year, the president was asking Congress to accept a binding target for defense for FY 1989

while refusing to identify program cuts for the remainder of the government that would be needed in order to reach the Gramm-Rudman ceilings" (Hamre, 1990, pp. 75). The stalemate was finally resolved by a budget summit in December 1987. The result was \$19 billion cut from the presidents defense budget request for FY 1988, and a \$32 billion reduction for 1989.

Even though 60% of the defense budget was already authorized for FY 1989, the Pentagon submitted an amendment for the entire defense budget. It was far easier for DoD to cut the required \$32 billion from the entire defense budget than to try and take the reductions over the 40% of the unauthorized portion of the FY 1989 budget. Budget amendments submitted by DoD for the off-year, are now a routine characteristic of the biennial budgeting process (Hamre, 1990, pp. 74-78).

In subsequent biennial budget submissions the Armed Services Committees, in general, authorized budgets annually for the reasons Robert Art presents below.

The Armed Services Committees worried that, if they adopted biennial budgeting in parallel with the Pentagon, they could lose control over defense policy if the Appropriations Committees did not follow suit. Authorizing a budget for two-years would do little good if the Appropriations Committees could have a relatively free hand in the second year to appropriate as they saw fit, particularly if the U.S. economic situation or world events changed dramatically, both common occurrences in the last decade (Art, 1990, pp. 40-41).

In the first and subsequent biennial budgets there has been little realized program funding stability (due more to the changing defense posture, a declining defense budget, and national budget woes than to a failure of biennial budgeting). The Defense Department has, however, been able to spend more

time performing program oversight functions through an Office of the Secretary of Defense (OSD) review of policies and service programs during the off-year, known as an execution review (Schmitt, 1991, pp. 16-18).

G. SUMMARY

This chapter has presented historical background on biennial budgeting in the federal government and in DoD. Although the experiences with federal biennial budgeting to date have been less than triumphant, current proposals are being promoted in Congress and by the Clinton administration. Motives for supporting or opposing a biennial budget cycle, particularly two-year appropriations, depend on one's perspective.

In the next chapter, the effects of a two-year budget cycle on DoN's and DoD's budget formulation and implementation process and its impact on POM development within DoN will be explored. Realized advantages and disadvantages of biennial budgeting in DoN and the likely future progression of biennial budgeting in DoD and in the federal government are also examined, from the perspective of defense budget and program professionals.

III. ANALYSIS OF THE EFFECTS OF BIENNIAL BUDGETING

A. INTRODUCTION

Under the current process of biennial budgeting, authorizations and appropriations are still executed annually, even though the Department of Defense (DoD) must submit its two one-year budgets (two individual budgets, one for each fiscal year in the biennium) to Congress once every two years. The Pentagon presents an amended defense budget via the administration to Congress for the off year in early February, four months into the start of the biennial period.

The only exception, since the first biennial budget submission for Fiscal Year (FY) 1988 and FY 1989, was the first budget submitted by the Clinton administration, which contained a one year defense budget for FY 1994 followed by a separate defense budget submission for FY 1995. The first biennial defense budget under President Clinton will be the FY 1996/FY 1997 submission.

In the course of writing this thesis, I have conducted comprehensive phone interviews with branch heads from the Navy Comptroller's office (NAVCOMPT), budget officers and deputy comptrollers of major claimants, Office of the Secretary of Defense (OSD) and Office of Management and Budget (OMB) budget analysts, House and Senate Defense Appropriation Subcommittee, and Defense Authorization Committee staff members, and Program Managers (PMs) in the Department of Defense.

This chapter's analysis of the effects of biennial budgeting will focus on the experiences, evaluations and judgments of those interviewed--who built and executed annual defense budgets, and who now participate in the planning and implementation of the two-year defense budget cycle. A broad panorama of the consequences of biennial budgeting will be painted. As mentioned in Chapter II, the details of the

procedural changes to the Planning, Programming and Budgeting System (PPBS) that have resulted from the switch to biennial budgeting will not be addressed in this study. An in-depth description of these procedural and administrative changes can be found in Art (1990, 27-38) and Anderson (1987, 70-86).

There was virtually universal agreement among the professionals interviewed on two points:

1. Budget execution has not changed since DoD began submitting biennial budgets because Congress does not appropriate biennially.
2. Overall the current biennial budgeting process is not effective, although some ancillary benefits have been realized.

The thoughts of one NAVCOMPT Branch Head captured the general feeling of many of his peers:

We are paying lip service to a program that will never be implemented as designed. Congress does not want to compromise the flexibility it has in shaping the DoD budget each year for defense planning reasons, domestic policy reasons, and for pork barrel reasons.

Based on interviews conducted and the study of pertinent material, this chapter will address all but one of the research questions posed in Chapter I, specifically:

- What effect has biennial budgeting had on the Department of the Navy's budget planning and implementation process?
- What have been the realized advantages and limitations of biennial budgeting within DoD and the Department of the Navy (DoN)?
- What has been the impact of biennial budgeting on the Program Objectives Memorandum (POM) process?

- Given the current political and budgetary climate, what is the likely future progression of biennial budgeting in DoD and in the federal government?

B. REALIZED STRENGTHS AND WEAKNESSES OF THE PRESENT BIENNIAL BUDGETING PROCESS

In Chapter II, arguments for and against biennial budgeting (in an environment where the President submits a budget every two years, authorization committees approve full two-year budgets, budget resolutions are adopted every two years and appropriations are established for the entire biennial period) were presented from the official perspective of various federal agencies and Congressional members.

The strengths and weaknesses and rationale discussed below, reflect the personal experiences, ideas and opinions of DoD budget analysts, PMs, and Congressional and OMB staff personnel interviewed.

A majority of the defense budget professionals interviewed believed that if biennial budgeting was executed as designed, with two-year appropriations, it would contribute to better decision making and more program stability, while simplifying and stabilizing a burdensome and very time consuming process. A two-year budget and appropriations cycle would allow policy makers more time to establish stable funding levels for procurement programs, evaluate current and prospective policy, and conduct more practical and effective long range planning.

When discussing strengths and weaknesses of the biennial budgeting process in DoD since the department's first biennial budget submission for FY 1988 and FY 1989, I asked that respondents address realized advantages and drawbacks rather than quoting the advertised benefits and detriments of a two-year budget cycle. An extensive discussion of the anticipated benefits and drawbacks of a biennial budget cycle in DoD and

the federal government can be found in Anderson (1987, pp. 17-20) and in Art (1990, pp. 48-55).

Individuals working in policy, operations and procurement departments generally emphasized the beneficial aspects of biennial budgeting. These individuals felt that two-year budgeting in DoD is helpful because it frees up a marginal amount of time within DoD to step back and evaluate policy and program implementation.

Although budget officers and budget analysts within DoD agree there are some advantages to biennial budgeting, they felt there was no time savings realized for them, in a two-year budget cycle, and in fact the work load and total time spent on budgeting and amending budgets has remained constant or even increased.

1. Strength: Careful Consideration and a Defendable Plan

One realized benefit of biennial budgeting recognized by nearly every expert interviewed, is that *a two year budget strongly encourages internal decision makers (from field to headquarters levels) to carefully consider what the services longer term programming and spending plans are and how to adequately defend those plans against critics and Congress.*

When the President submits his FY 1996/FY 1997 budget to Congress, legislators will have two opportunities to review and modify FY 1997's budget submission. First, with the FY 1996 budget review and again when the amended FY 1997 budget is submitted in February 1996. One DoD budget analyst stated:

Even though Congress appropriates annually, DoD must be as careful in formulating the budget for the second year of the biennium, as we are for the first year. The budget process is based on track records and there is an inherent danger to the services (programs and funding levels) in submitting budget updates that are not consistent with the original submission.

As will be presented later, a number of managers consider Congress' opportunity to look at the off-year budget twice as a disadvantage of the current budget process. Many individuals interviewed, however, felt that this system has provided the Navy and the other services incentive to accurately and thoroughly plan and prepare their budget submission for the two-year period-a benefit of biennial budgeting. As one DoD analyst stated, "...the services and OSD have a clearer picture of the defense force structure and have a reasonable projection of what program execution will be."

2. Strength: An Improved Program Objective Memorandum (POM) Process

Another advantage of biennial budgeting cited mostly by analysts and managers working in policy, operations and procurement departments, is that a full blown POM is prepared every other year instead of annually by the services. The POM is updated for the off-year much like the budget is. This update was labeled a "program review" by most NAVCOMPT managers. Congressional staffers and DoD analysts referred to it as the "POM update". I will use the phrase "POM update" for consistency.

DoD analysts and Navy managers interviewed stated that the POM updates have been marginally less work intensive and less time consuming than a full blown POM development. The time and work savings though noticeable, has been minimal due to continuing defense downsizing and the transformation of defense roles over the last few years.

Even though rather extensive revisions to the POM have been necessary in the POM update, time savings has been realized enabling the services to devote more time to program planning and evaluation.

One DoD analyst stated: "In an environment of greater defense policy and budgeting stability, the nature of POM

updates may shift from *extensive revision* to *minor update* providing more time for the services to evaluate their success in meeting objectives."

3. Weakness: Annual Appropriations and Program Instability

Not surprisingly, many managers interviewed within the DoD cited Congress' unwillingness to appropriate for a two-year period as a major weakness and inhibitor of a successful and beneficial biennial budgeting process. Individuals in procurement and policy departments and PMs noted various detrimental effects of continued annual appropriations on procurement programs including:

- The inability to buy more of a product at one time resulting in the loss of potential price discounts through economic order quantities.
- Less program stability due to more frequent program funding variations. This lack of program stability adversely impacts contractors and the services in their long term planning.

Two observers held a different perspective than most of the individuals interviewed. One, a professional staff member of the House Appropriations Defense Subcommittee stated:

Program stability is what supporters (of biennial budgeting) say will result from biennial appropriations. You will find, however, that the biggest cause of instability in defense programs is due to changes submitted by the services, not changes made by Congress. Look at the A-12....It is planning and execution stability that gives a program stability, not biennial budgeting....The budget approval process does not cause instability. It (instability) is simply the nature of (national) defense.

The deputy comptroller of a major claimant declared:

What is required is a national agreement between Congress and the administration on defense spending levels that are founded on a sound fiscal basis. If spending projection and execution are steady, then there is program stability. Whether or not it's the FYDP (Future Years Defense Plan) or biennial budgeting or annual budgeting is not the issue.

4. Weakness: Two Chances to Cut

As previously mentioned, a few managers considered Congress' opportunity to look at the off-year budget twice, as a disadvantage of the current budget process. While discussing weaknesses of biennial budgeting, one NAVCOMPT branch head stated: "When we (DON) submit a biennial budget, we are giving Congress two chances to cut the out-year."

5. Weakness: More Work for Budgeteers

Another disadvantage realized predominantly among budget analysts and budget officers is that the preparation of a biennial budget followed by an amended budget the next year, is more work and more time consuming than the preparation of two separate annual budgets. A branch head at NAVCOMPT explained:

Any benefits in (the ability to perform) long term planning have been offset by the extra time, workload and administration that goes into building the two, one-year budgets--that make up our biennial budget--followed the next year by preparing a budget amendment for the off-year. Under annual budgeting, we prepared two budgets in two years. Now, we prepare about two-and-one-half budgets over the same two year period.

The budget officer of a major claimant stated simply: "There is a lot of extra work that goes into the biennial budget cycle in DoD."

Even in the hypothetical case of a two-year appropriations cycle there would be little time savings if any, for budget analysts and comptrollers. Many share the view of the Congressional Budget Office on this issue presented in Chapter II: Biennial appropriations, if enacted, would likely result in numerous changes including, more and larger supplemental appropriations by Congress in the off-year, extensive reprogramming, and enormous budget amendments occurring throughout the two-year budget cycle. This type of situation would not be an improvement over the current process, and may actually be a detriment to the budgeting mechanism. Professional staff members from the House and Senate Defense Appropriation Subcommittees shared this view as well.

C. THE EFFECT OF BIENNIAL BUDGETING ON DON BUDGET PLANNING AND IMPLEMENTATION

Budget Planning: The effect of biennial budgeting on budget planning was introduced in Section B of this chapter--considered by most to have a beneficial effect on planning, but by some to be an additional burden on the budget planning process. As a rule, the managers and staff interviewed agreed that a biennial budgeting cycle has persuaded managers and planners within DoD to carefully consider what the services longer term programming and spending plans are and to be able to capably defend those plans and programs against critics and Congress.

Budgeting and to some extent reliable programming focused on the short term under annual budgeting. This resulted in one year of budget quality figures, and four years (the remaining portion of the then, Five Year Defense Plan which in concurrence with the implementation of biennial budgeting became the Future Years Defense Plan) of budget estimates that

were not well planned or evaluated. The second through fifth years, or out years, of the Five Year Defense Plan under annual budgeting were by one account:

...not practical and not real useful because of the short term focus of the participants... Only the first year of the (Five Year Defense) Plan was accurate (DoD budget analyst).

Under a biennial budgeting cycle, DoD submits two years of budget quality figures enabling the services and Congress to better plan and evaluate programs over a longer time horizon. Another DoD budget analyst commenting on the effect of biennial budgeting on DoD budget planning, stated:

Even though Congress appropriates annually, DoD must be as careful in formulating the budget for the second year of the biennium, as we are for the first year. The budget process is based on track records and there is an inherent danger to the services (programs and funding levels) in submitting budget updates that are not consistent with the original submission.

Under biennial budgeting the Defense Department, internally, has a clearer view of its projected force structure and can attempt to make reasonable estimations of what program execution will be.

Implementation: Every authority interviewed agreed that budget execution has not changed since DoD began submitting biennial budgets, simply because Congress does not appropriate biennially. A NAVCOMPT Branch Head explained:

There has been no change in budget execution what-so-ever. In the early days of biennial budgeting, some programs were authorized for two years contingent on the enactment of two-year appropriations. It never happened....The Appropriation Committees want to maintain strict

control of defense spending, and now, the Authorization Committees won't play since the appropriators won't.

D. CHANGES TO POM DEVELOPMENT

As mentioned initially in Section B, a positive aspect of biennial budgeting is that a full blown POM is prepared every other year instead of annually by the services. In an annual budgeting cycle, the services construct the POM for the next FY before they know what will happen to the POM they have just submitted. "...in an annual budgeting cycle, at some point service programmers are always putting the components of their next POMs together without knowing what the final budgetary actions on the previous POMs will be, even though those actions will affect the POMs that they are in the midst of putting together" (Art, 1990, pp. 46). Most planners and analysts interviewed agree that POM updates for the off-year of the biennial cycle have been marginally less work intensive and less time consuming than a full blown POM development. The time and work savings has in general, enabled the services to devote more time to program planning and evaluation.

Program Managers of relatively stable defense programs, agree that POM updates for the off-year have required less work and time to prepare than a full blown POM development. One Army PM, however, who oversaw a defense program that was a victim of the defense draw-down had a different perspective:

The change (to the POM process) is cosmetic and conceptual. The (off-year) updates are as intense and vigorous as the initial development. There is no realized advantage in this for the PM.

Analysts and planners at headquarters level, in general, view biennial POM submissions as a time saver which has allowed policy makers to focus more on the services program

planning and evaluation. From the Program Manager's perspective, however, workload reduction and additional time for analysis is more a function of program funding and scheduling stability, than the frequency of service POM inputs.

E. THE ENVISIONED COURSE OF BIENNIAL BUDGETING

Most of the managers and analysts I spoke with in the course of my research were aware that biennial budgeting is being promoted by the current administration. Discussed in detail in Chapter II, the Vice Presidents National Performance Review (NPR) is recommending that the entire budget cycle be changed from an annual to a biennial process. Under this system the President would present budgets every two years, authorization committees would approve full two year budgets, budget resolutions would be adopted every two years and appropriations would be established for the entire biennial period.

In recent testimony before Congress the General Accounting Office (GAO) offered support for portions of the NPR's biennial budgeting proposal, specifically associated with multi-year authorizations and budget resolutions. In contrast to the NPR's promotion of biennial appropriations, GAO supports a continued annual appropriations cycle.

The NPR and GAO proposals, in addition to the recent views and recommendations on the implementation and structure of a biennial budgeting process made by, the Joint (House and Senate) Committee on the Organization of Congress (JCOC), and the Congressional Budget Office (CBO), were also presented in detail in Chapter II.

Given the current administration's push for a two-year budget cycle and the GAO's position, individuals interviewed

were asked to forecast the future course and development of biennial budgeting.

1. Would Congress be more apt to enact two-year appropriations if all executive agencies, not just DoD, submitted biennial budgets as outlined in the NPR recommendations?

Almost every individual interviewed felt that Congress would never move to an across the board biennial appropriations cycle regardless of what other agencies did. This view is primarily due the perceived reluctance of Congress to give up, to any degree or frequency, authority or oversight of defense programs or the defense budget. Similar concerns over a possible shift in the relative balance of power between the legislative and executive branches, were raised by both the GAO and CBO in evaluating biennial budget proposals. Only a small number of managers felt that two-year appropriations would happen if all agencies submitted biennial budgets.

The view of a professional staff member of the House Appropriations Defense Subcommittee incorporated the perceptions and beliefs of many managers and analysts I spoke with:

Congress does not want to lose the control and flexibility that annual appropriations provide. Defense policy is inherently uncertain and changing.... Furthermore enacting multi-year appropriations for defense, the biggest discretionary spender, is not consistent with deficit reduction.

2. If adopted, will the GAO's biennial budgeting proposal offer any advantages to DoD over the current two year budget submission cycle?

Individuals interviewed saw little benefit to DoD from the GAO's proposal to establish multi-year authorizations, and

biennial budget resolutions while maintaining an annual appropriations cycle. The longer term resolution and authorization cycles were generally viewed by managers and analysts as a way that authorization and budget committees could potentially save time in the budget process. Most, however, felt there would be little advantage to service programmers and no realized benefit to budgeteers resulting from the GAO's recommendation.

An OMB budget examiner in the National Security division discussing the GAO's proposal stated:

Planning and appropriating for DoD is less stable than for other more steady spenders. Even though (with multi-year authorizations) we would know where the numbers are, it (multi-year authorizations) wouldn't mean much to long term planning and program stability within DoD if Congress continued appropriating annually.

A recently retired Program Manager within DoD, asserted:

There always has been, and always will be, a disconnect between Defense Authorization and Defense Appropriation Committees. This (the GAO proposal) would just exacerbate this difference, and wouldn't benefit service planning or program stability in the least.

3. What is the future of biennial budgeting?

An overwhelming majority of analysts, budgeteers and staff members interviewed believed that despite the current push for biennial budgeting by the Clinton administration and certain forces in Congress, the Federal Government will never implement a biennial budgeting system that includes a two year appropriations cycle for DoD.

The GAO proposal which promotes multi-year budget resolutions and authorizations while preserving the current annual appropriations cycle is seen as a possible, but

unlikely future course in the evolution of biennial budgeting at the Federal level.

The projected outlook by most managers is that DoD will continue the status quo, submitting biennial budgets to Congress every two years followed in the off-year by rather extensive budget amendments. The future of biennial budgeting in the estimation of the budget officer for a major claimant, reflected the view held by many of the DoD analysts, PM's, budgeteers, managers and Congressional staff interviewed:

I don't see any changes to the current system happening. Enough good comes out of it (biennial budget submissions by DoD) that the system can't rebel like it did when we shifted to zero-base budgeting. The current process satisfies decision and planning requirements within DoD. On the other hand due to the nature of the defense draw down and the intrinsic nature of people (Congress) to meddle I don't think we (DoD) will ever see two-year appropriations or realize the benefits of program stability and execution flexibility that would result.

A professional staff member of the Senate Armed Services Committee commenting on the future of biennial budgeting stated:

I believe we will continue to see a push for it, but I don't think the prospects (of successful implementation) are very good. The appropriation committees don't want to loose the control and flexibility that annual appropriations afford.... The size and rate of the defense draw down is not a factor. It is going to take a train wreck before Congress will appropriate for a two-year period.

A professional staff member of the Senate Appropriations Defense Subcommittee held a view strikingly different than most of the other professionals that I spoke with. He saw absolutely no benefit in any aspect of the current biennial

budgeting process within DoD and felt that an attempt to move the entire budget process to a two year cycle "...made no sense, is a total waste of time and is unrealistic in an environment of run-away deficits, and a wildly changing international situation that has resulted in a continuously changing force structure." He went on to predict that in a few years the whole idea of biennial budget submissions by DoD as well as the current proposals promoted by the NPR, GAO and JCOC would be "...recognized by lawmakers as a useless gimmick and dropped."

F. SUMMARY

By most accounts, the success of biennial budgeting in DoD has been limited, due mainly to the continued use of an annual appropriations cycle. Although changes to budget planning and the POM process have resulted from the implementation of a two-year budget cycle, there is no universal agreement that these changes have been advantageous to all in the DoD budget process.

Individuals working in policy, operations and procurement departments generally emphasize the beneficial aspects of biennial budgeting and feel it frees up a marginal amount of time to step back and evaluate policy and program implementation. Budget officers and budget analysts within DoD agree there are some advantages to biennial budgeting, however, they felt there was no time savings realized for them, in a two-year budget cycle, and in fact the work load and time spent on budgeting and amending budgets has remained constant or even increased.

A majority of analysts, budgeteers and staff members interviewed, believed that despite the current push for biennial budgeting by the Clinton administration and certain forces in Congress, a Federal biennial budgeting system that

includes a two year appropriations cycle, will never be implemented. Further, the GAO proposal which promotes multi-year budget resolutions and authorizations while maintaining an annual appropriations cycle is not viewed as beneficial to DoD, or as a likely future course in the evolution of Federal biennial budgeting.

The projected outlook by most managers is that DoD will continue the status quo, submitting biennial budgets to Congress every two years followed in the off-year by rather extensive budget amendments. The issue will continue to evolve over the next several years as a result of the recently renewed interest in a biennial budget.

The next chapter will present similarities and distinctions between biennial budgeting at the federal and state level. Relevant attributes of state biennial budgeting experiences that may be applied to the federal biennial budget process, will be presented. Trends in biennial budgeting at the state level and factors affecting whether states use biennial budgeting, will also be examined.

IV. BIENNIAL BUDGETING AT THE STATE LEVEL

A. INTRODUCTION

Although a relatively new development for the federal government, many states have used biennial budgeting for years. Currently 20 states employ biennial budget cycles, operating under varying schedules and styles of execution. Although budget size, scope, procedure, and form vary among states and between states and the federal government, reflection on state budgeting experiences can provide useful insight for federal policy makers that may be applied to biennial budgeting decisions at the federal level.

This chapter will introduce state trends in biennial budgeting, and present characteristics of state biennial budgeting including factors that influence whether states use an annual or biennial budget cycle. The final research question will be addressed, identifying relevant attributes of state biennial budgeting experiences that may be applied to the federal biennial budget process.

B. BIENNIAL BUDGETING TRENDS AT THE STATE LEVEL

Over the last 50 years, there has been a definite trend away from biennial budgeting at the state level. In 1940, 44 states operated under a biennial budget cycle. At that time, however, only four states (New Jersey, New York, Rhode Island, and South Carolina) held annual legislative sessions, preventing all other states from operating under an annual budget cycle (Kearns, 1993, pp. 42-43).

As of March 1994, 43 states hold annual legislative sessions and 20 states operate under a biennial budget cycle. Table 2. presents current annual and biennial budgeting states. Only three states that use a two-year budget cycle (North Dakota, Oregon and Wyoming) enact a consolidated

biennial budget, while the remaining enact two annual budgets at once. Of the 20 states that operate under a biennial cycle, "...at least half of them carry out a thorough review of their budgets before the second year of the biennium begins" (Snell, 1994, pp. 1).

Although the overall trend has been away from two-year budgeting, Connecticut shifted back to biennial budgeting in 1991 after 20 years of operating under an annual budget cycle. (Connecticut had changed from biennial to annual budgeting to coincide with its shift to an annual legislative cycle in 1971). Commenting on Connecticut's move back to a biennial budget cycle, the states's Assistant Budget Director stated:

Connecticut was facing some very difficult economic times in the late 1980's and early 1990's. By 1991 we had a \$1 billion deficit--extremely large for a state with an annual budget of \$8 billion. At that point we implemented a state income tax and began biennial budgeting....Our reason for (switching to) a biennial budget: If the state legislature is able to look at more than one year at a time, they could more effectively plan and program revenues and expenditures for the state.

On whether any expected benefits from the switch back to biennial budgeting had been realized, the states's Assistant Budget Director explained:

It is too hard to tell what impact the change back to biennial budgeting has made. There have been many recent state initiatives that have impacted on our budget planning and execution including: the state income tax, capital gains tax, a change in the sales tax, an expenditure cap, and a change in accounting systems from modified cash to modified accrual.

**Annual Session
Annual Budget**
(30 states)

Alabama
Alaska
Arizona
California
Colorado
Delaware
Florida
Georgia
Idaho
Illinois
Iowa
Kansas
Louisiana
Maryland
Massachusetts
Michigan
Mississippi
Missouri
New Jersey
New Mexico
New York
Oklahoma
Pennsylvania
Rhode Island
South Carolina
South Dakota
Tennessee
Utah
Vermont
West Virginia

**Annual Session
Biennial Budget**
(13 states)

Connecticut*
Hawaii*
Indiana*
Maine*
Minnesota*
Nebraska*
New Hampshire*
North Carolina*
Ohio*
Virginia*
Washington*
Wisconsin*
Wyoming

**Biennial Session
Biennial Budget**
(7 states)

Arkansas*
Kentucky*
Montana*
Nevada*
North Dakota
Oregon
Texas*

* Indicates biennial budget states that enact two annual budgets at once. Other biennial budget states enact a consolidated two-year budget.

Boldface indicates the ten most populous states.

Table 2. Annual and Biennial Budgeting States in 1993.
From: Snell, 1994, pp. 3.

C. ISSUES THAT AFFECT STATE BUDGET PERIODICITY

In her work, *The Determinants of State Budget Periodicity: An Empirical Analysis*, Paula Kearns conducted a study which included an "empirical analysis of the determinants of the political and economic factors that have been thought to contribute to a state's propensity to budget annually or biennially" (Kearns, 1993, pp. 40). This section will briefly summarize Ms. Kearns' findings and will also present some additional characteristics of state biennial budgeting.

There is a correlation between the region of the country a state is in and its choice of budget periodicity, suggesting that the political culture (either individualistic, moralistic or traditionalistic) of a region affects if a state budgets annually or biennially (Kearns, 1993, pp. 48-55).

Not surprisingly, there is a strong relationship between the frequency of a state's legislative sessions, and its budget periodicity. A state is likely to budget annually if it holds annual legislative sessions. States that hold legislative sessions every two years, tend to operate under a biennial budget cycle (Kearns, 1993, pp. 48-55).

The more complex a state's budget is, the more likely it is to operate under an annual budget cycle. Budget complexity is derived from population, the number and diversity of public programs, and the homogeneity of the population. Similarly, states with relatively high expenditure levels are more likely to budget annually. Currently, as shown in Table 2., seven of the ten largest states operate under an annual budget cycle (Kearns, 1993, pp. 48-55).

The executive branch's degree of power in executing a budget, including budget cuts and transfers within state agencies and programs, does not effect whether or not states

operate under a biennial budget cycle. "In this connection, it is important to note that state governments do not all distinguish executive and legislative authority and the separation of powers as rigorously as the federal government" (Snell, 1994, pp. 4).

This section concludes with an interesting and unique aspect of two-year budgeting in Virginia. Although not a specific issue that affects state budget periodicity, it is a matter worth examining in the context of this chapter.

In Virginia, the Governor is limited to a single term in office. In that four year term, the Governor submits two biennial budgets--the first, at the end of his/her second year in office, and the second, at the end of the Governor's four year term. It is a point of interest that "no Governor in Virginia completely develops and executes a single biennial budget" (Brown, 1994, pp. 2). Table 3. illustrates this point.

Budget Cycle vs. Election Cycle for Virginia

<u>Budget dates</u>	<u>Prepared by</u>	<u>Current Governor</u>
1992-94 budget (July 1992- June 1994)	Gov. Wilder	Gov. Wilder (until 1/94) Gov. Allen (after 1/94)
1994-96 budget (July 1994- June 1996)	Gov. Wilder (original) Gov. Allen (amendments)	Gov. Allen
1996-98 budget (July 1996- June 1998)	Gov. Allen	Gov. Allen (until 1/98) Gov. ? (after 1/98)

Table 3. Budget Cycle vs. Election Cycle.
After: Brown, 1994, pp. 2.

The case of Virginia brings out the importance of timing of key budget events in the implementation of biennial budgeting. If a federal biennial budget cycle is eventually adopted, the scheduling of budget execution and planning phases should be carefully considered with respect to Congressional and Presidential terms of office. In a situation where the executive can not completely develop and execute his/her budget, the expected benefits that a two-year budget cycle offers could be lost. Policy changes and numerous budget amendments, that could result from a change in voter priorities via a change in administrations, would result in a biennial budget process that is at least as work intensive and time consuming as an annual budget cycle.

D. REFLECTIONS ON BIENNIAL BUDGETING AT THE STATE LEVEL THAT MAY BE APPLIED TO A FEDERAL BIENNIAL BUDGETING PROCESS

Many of the federal biennial budgeting articles and reports referenced in writing this thesis include sections on state budget periodicity, and discussions comparing biennial and annual state budgeting. State, and even municipal level budgeting experiences, have been given a lot of attention recently, due mainly to the many bills advocating a federal biennial budget cycle that have been brought before Congress in the last decade. Champions and opponents of a federal biennial budget cycle look to state budget periodicity and success, for support of their position. (Kearns, 1993, pp. 40)

In her article, Paula Kearns cautions that when comparing state and federal budget cycles and operations, there are issues that are unique to each process that should be taken into account.

For instance, the U.S. government can run deficits, while forty-nine of the fifty states are bound by some type of balanced budget constraint. Moreover,

the federal government has the authority to print money, an option not available to the states. This means that revenue forecasts are of potentially greater importance to the states than to the federal government...The sheer bulk of the federal budget suggests that the problems confronting federal budget makers are vastly different from those associated with the budgets of the individual states (Kearns, 1993, pp. 47).

The Government Accounting Office (GAO) also states that it is difficult to compare state and federal budget process for the reasons that Paula Kearns mentioned above, in addition to the fact that "governors often have more unilateral power over spending than the President does" (Irving, 1994, pp. 2). The GAO has determined, however, that there are lessons in state budgeting that are relevant to the federal government. The first applicable message is that most of the states that operate under a biennial budget cycle are small and medium sized. The second insight is that the trend in state budget periodicity has been away from biennial budgeting (Irving, 1994, pp. 2-3).

In 1987, the GAO reported a variety of key factors that contributed to state governments historically making the change from biennial to annual budget cycles. State executive and legislative officials generally gave the same reasons for switching. (The boldface points are relevant to budget decisions at the federal as well as the state level, when considering a switch to a federal biennial budget cycle with multi-year appropriations):

- **to gain a greater accuracy in estimating revenues and/or financial needs,**
- **to improve legislative control over budgetary matters,**
- to avoid having the executive branch spend time developing a budget for the second year of the biennium when the legislature only "straight-lines" the first-year appropriations for the second year,

- to be better able to respond to rapid changes in revenues and/or program needs, and
- to make the budget cycle correspond with a change to annual meetings of the legislature (General Accounting Office, 1987, pp. 13).

The same report provided reasons that contributed to the decision by states to change from an annual to a biennial budget cycle:

- to reduce the time debating the budget in the off-year,
- to alleviate the administrative burden of perpetual involvement in the budgeting process,
- to impose a longer-range perspective in budget and fiscal planning,
- to permit more intensive analysis of selected program areas in alternate fiscal years, and
- to respond to a shift in political majority in the legislature (General Accounting Office, 1987, pp. 21).

In fact, many of the issues discussed throughout this thesis, including the points above, are also considerations of municipalities when making budgeting period decisions and analyzing biennial budgeting. At the 1994 annual conference of the Association for Budgeting and Financial Management, James Cavanaugh, an official from Pennsylvania's Municipal Program Division, presented local government perspectives on biennial budgeting including advantages, and disadvantages of biennial budgeting, and reasons why municipalities operate under a two-year budget cycle. Many similarities can be seen between local government's perspectives on, and experiences with biennial budgeting (from Mr. Cavanaugh's presentation), and state, and federal government's perspectives on, and experiences with, biennial budgeting (as described in this thesis). Local government experiences with biennial budgeting will not be

specifically examined in this work, however, Mr. Cavanaugh's "lessons learned" for executing a successful biennial budget cycle are, I feel, as relevant to the states and the federal government as they are to municipalities. First, governments should have a sound financial infrastructure in place, (e.g., capital improvements plan and multi-year financial planning). Second, and perhaps more significant, the second year of the biennium should begin as a plan, rather than an inflexible budget (Cavanaugh, 1994, pp. 6).

Another aspect of state biennial budgeting that should be considered when deliberating a federal two-year budget is that most states that employ a biennial budgeting cycle, tend to revise the second year budget. While discussing the budgeting practices of states that operate under a biennial budget cycle, the Fiscal Program Director for the National Conference of State Legislatures explains:

Budgets are written for a specific fiscal year in almost every case. Because 13 of the states with biennial budgets have annual sessions in which they can and do revisit the budget, (Table 2) may overstate the extent of true biennial budgeting. The extent to which budgets are actually revised for the second year of a biennium varies from state to state and from time to time, largely depending on economic and fiscal conditions (Snell, 1994, pp. 2).

It is vital for decision makers to recall the concerns raised by Paula Kearns (above), in addition to the fact that most states that operate under a biennial budget cycle are small and medium sized, and that the trend in state budget periodicity has been away from biennial budgeting (Irving, 1994, pp. 2-3). It is also important to recognize that the four states (Connecticut, Hawaii, Indiana, and Nebraska) that have changed their budget cycles from annual to biennial in the last 26 years, are states that enact two annual budgets at once, and have legislatures that meet annually. For these

states it is logistically easy, if required, to review and amend the second year of their two-year budget. For the 12 of 20 biennial budget states that hold annual legislatures and prepare two distinct annual budgets for the biennium, the separation between annual and biennial budgeting is not clear, especially if the second year of the biennium requires extensive review and amending.

E. SUMMARY

When comparing state and federal budget periods there are lessons that are relevant, however, as discussed in this chapter, there are also issues that are unique to each process that must be considered. Decision makers considering a federal biennial budget cycle with multi-year appropriations, can examine relevant aspects of state budgeting experiences, specifically:

- the historical trend away from biennial budgeting at the state level,
- the thorough budget review performed by half of all biennial budget states, before the second year of the biennium begins,
- the scheduling of budget execution and planning phases with respect to legislative and executive branch terms of office,
- the relative size (population and expenditure level) of biennial as compared with annual budget states,
- the extent to which the second year of the biennium is a plan, rather than an inflexible budget, and
- the fact that "forecasting is likely to prove more accurate in annual-budget states than in biennial-budget states, reducing the need for supplemental appropriations and special legislative sessions" (Snell, 1994, pp. 9).

The fact that 20 states currently operate under some type of a biennial budget cycle demonstrates that it can work. Decision makers, however, who consider the above listed features of state budgeting experiences, may be hesitant (and justifiably so) to implement a full scale biennial budget cycle throughout the federal government.

In the next chapter, conclusions regarding biennial budgeting for the federal government, and within the Department of Defense will be drawn, and possible further research recommendations will be presented.

V. CONCLUSIONS

As the size and complexity of the federal budget has increased over the past 50 years, lawmakers have been spending an increasing amount of time and resources on the annual budget process, which has detracted from the time they can spend on non-budget issues and activities. Despite the additional time and effort devoted to the federal budget, frustration and disaffection over the annual budget process has steadily increased.

In the mid-1980's a major budget reform experiment, biennial budgeting, was implemented within the Department of Defense (DoD) in the hopes of improving defense program stability and oversight of program execution. Since the first two-year defense budget, biennial budgeting in its current less-than-pure form (annual appropriations and biennial budget submissions consisting of two annual budgets) is overall not considered by defense budget professionals as effective, although some ancillary benefits have been realized. A majority of the defense budget professionals interviewed believed that if biennial budgeting was executed as designed, with two-year appropriations, it would contribute to better decision making and more program stability, while simplifying and stabilizing a burdensome and very time consuming process.

It is interesting that individuals working in policy, operations and procurement departments generally emphasized the beneficial aspects of biennial budgeting noting that the two-year budget cycle has freed up a marginal amount of time to step back and evaluate policy and program implementation. In contrast, budget officers and budget analysts within DoD felt there was no realized time savings for them in a two-year budget cycle, and that the work load and time spent on budgeting and amending budgets has in fact remained constant or even increased.

The effect of biennial budgeting on the Department of the Navy's (DoN) budget planning and implementation process:

Managers and staff interviewed agree that a biennial budget cycle has persuaded DoN and DoD planners to more carefully consider longer term programming and spending plans and to be able to capably defend those plans and programs against critics and Congress. Under an annual cycle, budgeting and to some extent reliable programming focused on the short term, while under a biennial cycle, DoD submits two years of budget quality figures enabling the services and Congress to better plan and evaluate programs over a longer time horizon. The Defense Department, internally, has a clearer view of its projected force structure and can attempt to make reasonable estimations of what program execution will be.

Budget execution, on the other hand, has not changed since DoD began submitting biennial budgets, simply because Congress does not appropriate for the biennium.

Realized advantages of biennial budgeting in DoD and DoN:

A two year budget strongly encourages internal decision makers (from field to headquarters levels) to carefully consider what the services longer term programming and spending plans are and how to adequately defend those plans against critics and Congress. In addition, DoD analysts and Navy managers interviewed stated that Program Objective Memorandum (POM) updates have been marginally less work intensive and less time consuming than a full blown POM development. The time and work savings though noticeable, has been minimal due to continuing defense downsizing and the transformation of defense roles over the last few years.

Realized weaknesses of biennial budgeting in DoD and DoN:

Many of the managers interviewed within DoD cited Congress' unwillingness to appropriate for a two-year period

as a major weakness and inhibitor of defense program stability and a successful and beneficial biennial budgeting process. Not all managers concurred with this view, citing an evolving defense posture, a declining defense budget, and national budget woes as the root cause of program instability. Congress' opportunity to look at the off-year budget twice, and the necessity of preparing an amended defense budget in the off-year, were also considered by most as limitations of the current process.

The effect of biennial budgeting on POM development:

Analysts and planners at headquarters level, in general, view biennial POM submissions as a time saver which has allowed policy makers to focus more on the services program planning and evaluation. Most of these professionals agree that POM updates for the off-year of the biennial cycle have been marginally less work intensive and less time consuming than an annual full blown POM development. From the Program Manager's perspective, however, workload reduction and additional time for analysis is more a function of program funding and scheduling stability, than the frequency of service POM inputs.

Relevant attributes of state biennial budgeting experiences that may be applied to a federal biennial budgeting process:

When comparing state and federal budget periods there are lessons that are relevant, however, as discussed in Chapter IV, there are also issues that are unique to each process that must be considered. Decision makers considering a federal biennial budget cycle with multi-year appropriations, can examine germane aspects of state budgeting experiences, specifically:

- the historical trend away from biennial budgeting at the state level,
- the thorough budget review performed by half of all biennial budget states, before the second year of the biennium begins,
- the scheduling of budget execution and planning phases with respect to legislative and executive branch terms of office,
- the relative size (population and expenditure level) of biennial as compared with annual budget states,
- the extent to which the second year of the biennium is a plan, rather than an inflexible budget, and
- the fact that "forecasting is likely to prove more accurate in annual-budget states than in biennial-budget states, reducing the need for supplemental appropriations and special legislative sessions" (Snell, 1994, pp. 9).

The likely future progression of biennial budgeting in DoD and in the federal government given the current political and budgetary climate:

A majority of analysts, budgeteers and staff members interviewed, believe that despite the current push for biennial budgeting by the Clinton administration and certain forces in Congress, a federal biennial budget process that includes a two year appropriations cycle, will never be implemented, primarily due to the reluctance of Congress to give up authority over defense programs or the defense budget. The projected outlook by most managers is that DoD will continue the status quo, submitting biennial budgets to Congress every two years followed in the off-year by rather extensive budget amendments.

Despite the limited success of DoD's two-year budget experience, the movement towards a biennial budget cycle has recently been gaining support across party lines, and in both the legislative and executive branches. Supporters feel that a biennial budget (with multi-year authorizations and appropriations) would provide lawmakers additional needed time to carefully formulate and enact the budget, enhance program funding stability, and provide legislators an increased amount of time to deal with non-budget issues. Opponents argue that a federal biennial budget would reduce the flexibility and responsiveness needed to react to changes in economic and national interest issues, and under a policy of biennial appropriations, would reduce Congressional control over the budget.

As previously examined and discussed throughout this thesis, the relative success of the current two-year defense budget, as well as the motives for supporting or opposing a biennial budget cycle, particularly two-year appropriations, depend to a large extent, on one's perspective.

After many months of continual research and reflection on the topic of biennial budgeting, I do not expect to see any change in DoD's or the rest of the federal government's budgeting periodicity--especially in the frequency of appropriation bills. Perhaps the outlook of one Navy budget officer, quoted in Chapter III, says it best:

I don't see any changes to the current system happening. Enough good comes out of it (biennial budget submissions by DoD) that the system can't rebel like it did when we shifted to zero-base budgeting. The current process satisfies decision and planning requirements within DoD. On the other hand due to the nature of the defense draw down and the intrinsic nature of people (Congress) to meddle I don't think we (DoD) will ever see two-year appropriations or realize the benefits of program stability and execution flexibility that would result.

Both the federal and defense biennial budgeting processes may, however, continue to evolve over the years as a result of the recently renewed interest in a federal biennial budget in concert with the ongoing restructuring of the Department of Defense. A possible topic for further research may be to examine the progress of biennial budgeting in DoD, and the movement toward a two-year budget in the federal government over the course of the next several years.

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